

CITY OF BOX ELDER  
BOX ELDER, SOUTH DAKOTA

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2007

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report . . . . .	1-2
Management's Discussion and Analysis . . . . .	3-8
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets – Modified Cash Basis. . . . .	9
Statement of Activities – Modified Cash Basis. . . . .	10
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet – Modified Cash Basis . . . . .	11
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances -- Modified Cash Basis . . . . .	12-13
Proprietary Funds Balance Sheet – Modified Cash Basis. . . . .	14
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets – Modified Cash Basis . . . . .	15
Proprietary Funds Statement of Cash Flows – Modified Cash Basis . . . . .	16
Notes to Financial Statements -- Modified Cash Basis. . . . .	17-28
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund . . . . .	29-30
Budgetary Comparison Schedule – Liquor, Lodging, and Dining Tax Fund. . . . .	31
Notes to Required Supplementary Information. . . . .	32
<i>Single Audit Section:</i>	
Summary Schedule of Prior Audit Findings. . . . .	33
Schedule of Findings, Questioned Costs, and Corrective Action Plan. . . . .	34-40
Schedule of Expenditure of Federal Awards. . . . .	41
<i>Other Reports:</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. . . . .	42-43
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. . . . .	44-45



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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Box Elder  
Box Elder, South Dakota

We have audited the accompanying modified cash basis financial statements of governmental activities, the business-type activities, and each major fund of the **CITY OF BOX ELDER** (the City), Pennington County, South Dakota, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audits.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the City of Box Elder prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the inadequacies of accounting records and related internal controls, and the lack of properly prepared bank reconciliations, we were unable to verify the accounting and classification of certain income and expenses.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, if the records were adequate as discussed in the fourth paragraph, the Government-Wide Statement of Activities, the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets, and the Proprietary Funds Statement of Cash Flows referred to above present fairly, in conformity with the modified cash basis of accounting, the changes in financial position and cash flows of the governmental activities, the business-type activities, and each major fund of the City for the year ended December 31, 2007, in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the Government-Wide Statement of Net Assets, the Governmental Funds Balance Sheet, and the Proprietary Funds Balance Sheet present fairly, in all material respects, the respective financial position – modified cash basis – of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2007, in conformity with the basis of accounting described in Note 1.

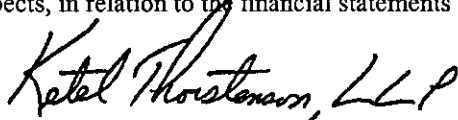
City Council  
Page Two

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In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8, and the required supplementary budgetary information on pages 29 through 32, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

March 11, 2009

## **CITY OF BOX ELDER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2007**

Our discussion and analysis of the City of Box Elder's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2007, within the limitations of the City's modified cash basis of accounting. We encourage readers to consider it in conjunction with the City's financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The City's total expense exceeded total revenues, on the modified cash basis of accounting, by \$324,161 for the year ended December 31, 2007. Most of the decrease in net assets is attributed to the City's operation of its business activities and significant construction projects.
- The City's total debt increased by \$2,207,736 during the year ended December 31, 2007.

#### **USING THIS ANNUAL REPORT**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's modified cash basis of accounting.

#### **Report Components**

This annual report consists of four parts as follows:

**Government-Wide Financial Statements:** The Statement of Net Assets and the Statement of Activities provide information about the activities of the City using a government-wide focus (or "as a whole").

**Fund Financial Statements:** Fund financial statements focus on the individual parts of City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term, as well as what remains for future spending. For *proprietary activities*, these statements offer financial information about the activities the City operates like businesses, such as water, sewer, and solid waste services.

**Notes to the Financial Statements:** The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Required Supplementary Information:** This Management's Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statement"). The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, whereby capital outlay expenditures are reported within the respective functions rather than as a separate capital outlay function.

#### **Basis of Accounting**

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses, and related assets are recorded when they result from cash transactions, except for the recording of investments and surety bond liability.

## **CITY OF BOX ELDER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2007**

#### **USING THIS ANNUAL REPORT (CONTINUED)**

##### **Basis of Accounting (Continued)**

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

##### **Reporting the City as a Whole**

###### ***The City's Reporting Entity Presentation***

This annual report includes all activities for which the City of Box Elder City Council is fiscally responsible. These activities, defined as the City's reporting entity, are operated within separate legal entities that make up the primary government. The primary government includes the legal entity of the City of Box Elder.

###### ***The Government-Wide Statement of Net Assets and the Statement of Activities***

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets resulting from the use of the modified cash basis of accounting.

These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net assets as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's sales tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

*Governmental activities.* Most of the City's basic services are reported here, including the police, general government, streets and parks. Sales taxes, property taxes and state and federal grants finance most of these activities.

*Business-type activities.* The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and solid waste systems are reported here.

##### **Reporting the City's Most Significant Funds**

###### ***The Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City has two kinds of funds - *Governmental and Proprietary*.

**CITY OF BOX ELDER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2007**

**USING THIS ANNUAL REPORT (CONCLUDED)**

**Reporting the City's Most Significant Funds (Continued)**

***The Fund Financial Statements (Continued)***

**Governmental funds** - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City considers the General Fund, the Second Penny Sales Tax Fund, and the Liquor, Lodging, and Dining Tax fund and Tax Increment #1, Debt Service Fund, to be its significant or major governmental funds.

**Proprietary funds** - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. The City's proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements, but the fund statements provide more detail and additional information.

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net Assets - Modified Cash Basis**

The City's combined net assets, resulting from modified cash basis transactions, decreased from approximately \$2.2 million to \$1.8 million during the year ended December 31, 2007.

	Governmental Activities		Business-Type Activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>ASSETS:</b>						
Cash and Cash						
Equivalents	\$ 1,164,715	\$ 1,064,399	\$ 32,729	\$ 460,113	\$ 1,197,444	\$ 1,524,512
Investments	558,622	535,304	-	-	558,622	535,304
Restricted Assets:						
Cash and Cash						
Equivalents	-	4,750	79,203	94,864	79,203	99,614
<b>TOTAL ASSETS</b>	<b>\$ 1,723,337</b>	<b>\$ 1,604,453</b>	<b>\$ 111,932</b>	<b>\$ 554,977</b>	<b>\$ 1,835,269</b>	<b>\$ 2,159,430</b>
<b>NET ASSETS:</b>						
Restricted	224,358	4,750	79,203	94,864	303,561	99,614
Unrestricted	1,498,979	1,599,703	32,729	460,113	1,531,708	2,059,816
<b>TOTAL NET ASSETS</b>	<b>1,723,337</b>	<b>1,604,453</b>	<b>111,932</b>	<b>554,977</b>	<b>1,835,269</b>	<b>2,159,430</b>
<b>LIABILITIES AND</b>						
<b>NET ASSETS</b>	<b>\$ 1,723,337</b>	<b>\$ 1,604,453</b>	<b>\$ 111,932</b>	<b>\$ 554,977</b>	<b>\$ 1,835,269</b>	<b>\$ 2,159,430</b>

**CITY OF BOX ELDER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2007**

**A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

**Net Assets - Modified Cash Basis (Continued)**

Net assets of the City's governmental activities decreased approximately \$118,000 to \$1.7 million in fiscal year 2007. In fiscal year 2007, \$4,750 of those net assets are restricted as to the purposes for which they can be used.

**Changes in Net Assets-Modified Cash Basis**

For the year ended December 31, 2007, net assets of the primary government (resulting from modified cash basis transactions) changed as follows:

	Governmental Activities		Business-Type Activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Program Revenues</b>						
Charges for Services	\$ 125,963	\$ 94,018	\$ 1,300,129	\$ 879,581	\$ 1,426,092	\$ 973,599
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	9,985	750	424,003	-	433,988	750
<b>General Revenues</b>						
Property Tax	472,488	661,630	-	-	472,488	661,630
Sales Tax	720,569	672,458	-	-	720,569	672,458
State Shared Revenues	63,944	58,043	-	-	63,944	58,043
Investment Income	34,490	30,445	951	4,006	35,441	34,451
Miscellaneous	318,651	30,908	-	-	318,651	30,908
<b>Total Revenues</b>	<b>1,746,090</b>	<b>1,548,252</b>	<b>1,725,083</b>	<b>883,587</b>	<b>3,471,173</b>	<b>2,431,839</b>
<b>Expenses</b>						
General Government	481,845	344,644	-	-	481,845	344,644
Public Safety	575,924	588,749	-	-	575,924	588,749
Public Works	281,125	282,188	-	-	281,125	282,188
Health and Welfare	139,103	46,381	-	-	139,103	46,381
Conservation and Development	144,681	124,422	-	-	144,681	124,422
Interest and Principal on Long-Term Debt	7,298	7,299	-	-	7,298	7,299
Water	-	-	1,786,970	569,224	1,786,970	569,224
Sewer	-	-	285,493	292,849	285,493	292,849
Solid Waste	-	-	92,895	108,016	92,895	108,016
<b>Total Expenses</b>	<b>1,629,976</b>	<b>1,393,683</b>	<b>2,165,358</b>	<b>970,089</b>	<b>3,795,334</b>	<b>2,363,772</b>
<b>Transfers</b>	<b>2,770</b>	<b>-</b>	<b>(2,770)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>118,884</b>	<b>154,569</b>	<b>(443,045)</b>	<b>(86,502)</b>	<b>(324,161)</b>	<b>68,067</b>
<b>Ending Net Assets</b>	<b>\$ 1,723,337</b>	<b>\$ 1,604,453</b>	<b>\$ 111,932</b>	<b>\$ 554,977</b>	<b>\$ 1,835,269</b>	<b>\$ 2,159,430</b>



## **CITY OF BOX ELDER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2007**

#### **A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

##### **Governmental Activities**

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenue, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

For the year ended December 31, 2007, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$1,629,976. Of these total expenses, taxpayers and other general revenues funded \$1,352,995.

##### **Business-Type Activities**

For fiscal year 2007, the water, sewer, and solid waste reported net revenues/(expenses) of (\$667,495), \$201,379, and \$23,071.

#### **A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- On the modified cash basis of accounting, the General Fund reported revenues of \$1,561,341 and expenditures and net transfers of \$1,596,859, resulting in a decrease in fund balance of \$9,965 for 2007.
- The Water Fund reported a decrease in net assets of \$667,495 in 2007. The decrease is due to the City completing several water projects in 2007.

##### **General Fund Budgetary Highlights**

The City Council revised the General Fund budget at various times. The differences in the budgets for fiscal year 2007 can be attributed to increases in tax revenue, due to a growing population base and expanding construction during the audit period. Expenditures increased only to adapt to rising costs of materials and services, as well as population growth.

The City had a few significant variances between the final budget and the actual expenditures. These included financial administration, highways and streets, parks, and planning and zoning. Financial administration expenditures were nearly \$100,000 over budget due to the purchase of land for \$72,500 that was not budgeted for but were from funds designated and restricted for this purpose by ordinance. Highways and streets expenditures were \$55,649 under budget due to a change in priority from Streets to Parks. Parks expenditures were \$41,128 over budget due to a change in priority from Streets to Parks improvements. There were funds restricted and designated for Parks by ordinance. Finally, planning and zoning expenditures were \$86,186 under budget due to fewer building inspections and related costs, and a delay in the purchase of a GIS system until the Master Plan is complete and ready for GIS input.

**CITY OF BOX ELDER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)  
DECEMBER 31, 2007**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

For the upcoming year ending December 31, 2008, the City's budget is fairly consistent with the 2007 budget.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designated to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City of Box Elder, Finance Officer, 520 S. Ellsworth Suite 9C, Box Elder, SD 57719.

**CITY OF BOX ELDER**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 1,164,715	\$ 32,729	\$ 1,197,444
Investments	558,622	-	558,622
Restricted Assets:			
Cash and Cash Equivalents	-	79,203	79,203
<b>TOTAL ASSETS</b>	<b>\$ 1,723,337</b>	<b>\$ 111,932</b>	<b>\$ 1,835,269</b>
<b>NET ASSETS:</b>			
Restricted for:			
Debt Service	219,608	79,203	298,811
Other Purposes	4,750	-	4,750
Unrestricted	1,498,979	32,729	1,531,708
<b>TOTAL NET ASSETS</b>	<b>1,723,337</b>	<b>111,932</b>	<b>1,835,269</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,723,337</b>	<b>\$ 111,932</b>	<b>\$ 1,835,269</b>

The accompanying notes are an integral part of this statement.

CITY OF BOX ELDER

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	----- Program Revenues -----		----- Net (Expense) Revenue and -----		Total
		Charges for	Capital	Governmental	Business-Type	
		Services	Contributions	Activities	Activities	
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
General Government	\$ 481,845	\$ 120,906	\$ -	\$ (360,939)	\$ -	\$ (360,939)
Public Safety	575,924	5,057	9,985	(560,882)	-	(560,882)
Public Works	281,125	-	-	(281,125)	-	(281,125)
Culture and Recreation	139,103	-	-	(139,103)	-	(139,103)
Conservation and Development	144,681	-	-	(144,681)	-	(144,681)
Long-Term Debt	7,298	-	-	(7,298)	-	(7,298)
<b>Total Governmental Activities</b>	<b>1,629,976</b>	<b>125,963</b>	<b>9,985</b>	<b>(1,494,028)</b>	<b>-</b>	<b>(1,494,028)</b>
<b>Business-Type Activities:</b>						
Water	1,786,970	783,373	335,461	-	(668,136)	(668,136)
Sewer	285,493	400,790	88,542	-	203,839	203,839
Solid Waste	92,895	115,966	-	-	23,071	23,071
<b>Total Business-Type Activities</b>	<b>2,165,358</b>	<b>1,300,129</b>	<b>424,003</b>	<b>-</b>	<b>(441,226)</b>	<b>(441,226)</b>
<b>Total Primary Government</b>	<b>\$ 3,795,334</b>	<b>\$ 1,426,092</b>	<b>\$ 433,988</b>	<b>(1,494,028)</b>	<b>(441,226)</b>	<b>(1,935,254)</b>
<b>General Revenues:</b>						
Taxes:						
Property Taxes				472,488	-	472,488
Sales Taxes				720,569	-	720,569
State Shared Revenues				63,944	-	63,944
Unrestricted Investment Earnings				34,490	951	35,441
Miscellaneous Revenue				318,651	-	318,651
<b>Transfers</b>				2,770	(2,770)	-
<b>Total General Revenues and Transfers</b>				<b>1,612,912</b>	<b>(1,819)</b>	<b>1,611,093</b>
<b>Change in Net Assets</b>				<b>118,884</b>	<b>(443,045)</b>	<b>(324,161)</b>
Net Assets-January 1, 2007				1,604,453	554,977	2,159,430
<b>Net Assets-December 31, 2007</b>				<b>\$ 1,723,337</b>	<b>\$ 111,932</b>	<b>\$ 1,835,269</b>

The accompanying notes are an integral part of this statement.

CITY OF BOX ELDER

BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007

	<u>General Fund</u>	<u>2nd Penny Sales Tax Fund</u>	<u>Liquor, Lodging and Dining Tax Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>					
101 Cash and Cash Equivalents (Note 11)	\$ 380,340	\$ -	\$ 501,593	\$ 58,424	\$ 940,357
107.1 Restricted Cash and Cash Equivalents	4,750	219,608	-	-	224,358
151 Investments	134,417	424,205	-	-	558,622
<b>TOTAL ASSETS</b>	<b>\$ 519,507</b>	<b>\$ 643,813</b>	<b>\$ 501,593</b>	<b>\$ 58,424</b>	<b>\$ 1,723,337</b>
<b>FUND BALANCES</b>					
261 Reserved For:					
261.04 Debt Service	-	219,608	-	-	219,608
261.16 Other - Parks	4,750	-	-	-	4,750
262 Unreserved Fund Balances:					
262.02 Designated for Other Purposes					
City Hall Building	73,273	-	-	-	73,273
Parks Improvements	95,471	-	-	-	95,471
262.09 Undesignated	346,013	424,205	501,593	58,424	1,330,235
<b>TOTAL FUND BALANCES</b>	<b>519,507</b>	<b>643,813</b>	<b>501,593</b>	<b>58,424</b>	<b>1,723,337</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 519,507</b>	<b>\$ 643,813</b>	<b>\$ 501,593</b>	<b>\$ 58,424</b>	<b>\$ 1,723,337</b>

The accompanying notes are an integral part of this statement.

**CITY OF BOX ELDER**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED  
CASH BASIS - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b><u>General Fund</u></b>	<b><u>2nd Penny Sales Tax Fund</u></b>	<b><u>Liquor, Lodging and Dining Tax Fund</u></b>	<b><u>Tax Increment District #1 - Debt Service Fund</u></b>	<b><u>Total Governmental Funds</u></b>
<b>Revenue:</b>					
<i>310 Taxes:</i>					
311 General Property Taxes	\$ 407,368	\$ -	\$ -	\$ 58,424	\$ 465,792
313 General Sales and Use Taxes	648,934	-	71,635	-	720,569
315 Amusement Taxes	864	-	-	-	864
319 Penalties and Interest on Delinquent Taxes	5,832	-	-	-	5,832
320 Licenses and Permits	116,390	-	-	-	116,390
<i>330 Intergovernmental Revenue:</i>					
334 State Grants	9,985	-	-	-	9,985
<i>335 State Shared Revenue:</i>					
335.01 Bank Franchise Tax	4,522	-	-	-	4,522
335.03 Liquor Tax Reversion	11,641	-	-	-	11,641
335.04 Motor Vehicle Licenses (5%)	29,139	-	-	-	29,139
335.08 Local Government Highway and Bridge Fund	18,131	-	-	-	18,131
335.20 Other	511	-	-	-	511
<i>340 Charges for Goods and Services:</i>					
341 General Government	4,516	-	-	-	4,516
<i>350 Fines and Forfeits:</i>					
351 Court Fines and Costs	5,057	-	-	-	5,057
<i>360 Miscellaneous Revenue:</i>					
361 Investment Earnings	5,353	25,383	3,754	-	34,490
367 Contributions and Donations from Private Sources	-	-	-	-	-
369 Other	293,098	-	-	-	293,098
<b>Total Revenue</b>	<b>1,561,341</b>	<b>25,383</b>	<b>75,389</b>	<b>58,424</b>	<b>1,720,537</b>

## CITY OF BOX ELDER

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED  
 CASH BASIS - GOVERNMENTAL FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General Fund</u>	<u>2nd Penny Sales Tax Fund</u>	<u>Liquor, Lodging and Dining Tax Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>Expenditures:</b>					
<i>410 General Government:</i>					
412 Executive	71,219	-	-	-	71,219
413 Elections	2,214	-	-	-	2,214
414 Financial Administration	408,412	-	-	-	408,412
419 Other	-	-	-	-	-
<i>420 Public Safety:</i>					
421 Police	575,924	-	-	-	575,924
<i>430 Public Works:</i>					
431 Highways and Streets	281,125	-	-	-	281,125
<i>450 Culture and Recreation:</i>					
451 Recreation	11,500	-	-	-	11,500
452 Parks	123,853	-	-	-	123,853
455 Libraries	3,750	-	-	-	3,750
<i>460 Conservation and Development:</i>					
465 Planning and Zoning	143,471	-	-	-	143,471
465 Community Development	-	-	1,210	-	1,210
<i>470 Debt Service</i>					
Interest	556	-	-	-	556
Principal	6,742	-	-	-	6,742
<i>485 Capital Outlay</i>	-	-	-	1,046,965	1,046,965
<b>Total Expenditures</b>	<b>1,628,766</b>	<b>-</b>	<b>1,210</b>	<b>1,046,965</b>	<b>2,676,941</b>
<b>Other Financing Sources:</b>					
391.01 Transfers In	31,921	-	-	-	31,921
391.03 Sale of Municipal Property	25,000	-	-	-	25,000
391.04 Compensation for Loss or Damage	553	-	-	-	553
391.20 Long-Term Debt Issued	-	-	-	1,046,965	1,046,965
511 Transfers Out	(14)	(25,383)	(3,754)	-	(29,151)
<b>Total Other Financing Sources</b>	<b>57,460</b>	<b>(25,383)</b>	<b>(3,754)</b>	<b>1,046,965</b>	<b>1,075,288</b>
<b>Net Change in Fund Balances</b>	<b>(9,965)</b>	<b>-</b>	<b>70,425</b>	<b>58,424</b>	<b>118,884</b>
Fund Balances - January 1, 2007	529,472	643,813	431,168	-	1,604,453
<b>Fund Balances - December 31, 2007</b>	<b>\$ 519,507</b>	<b>\$ 643,813</b>	<b>\$ 501,593</b>	<b>\$ 58,424</b>	<b>\$ 1,723,337</b>

The accompanying notes are an integral part of this statement.

**CITY OF BOX ELDER**

**BALANCE SHEET - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
DECEMBER 31, 2007**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<b>ASSETS:</b>				
Current Assets:				
101 Cash and Cash Equivalents	\$ (283,547)	\$ 333,858	\$ (17,582)	\$ 32,729
Noncurrent Assets:				
107.1 Restricted Cash and Cash Equivalents	-	79,203	-	79,203
<b>TOTAL ASSETS</b>	<b>\$ (283,547)</b>	<b>\$ 413,061</b>	<b>\$ (17,582)</b>	<b>\$ 111,932</b>
<b>NET ASSETS:</b>				
253.20 Restricted Net Assets, Restricted for:				
253.21 Revenue Bond Debt Service	\$ -	\$ 79,203	\$ -	\$ 79,203
253.90 Unrestricted Net Assets (Deficit) (Note 8)	(283,547)	333,858	(17,582)	32,729
<b>TOTAL NET ASSETS</b>	<b>\$ (283,547)</b>	<b>\$ 413,061</b>	<b>\$ (17,582)</b>	<b>\$ 111,932</b>

The accompanying notes are an integral part of this statement.



**CITY OF BOX ELDER**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - MODIFIED  
CASH BASIS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<b>Operating Revenue:</b>				
380 Charges for Goods and Services	\$ -	\$ -	\$ 115,966	\$ 115,966
381 Revenues Used as Security for Revenue Bonds	783,373	400,790	-	1,184,163
<b>Total Operating Revenues</b>	<b>783,373</b>	<b>400,790</b>	<b>115,966</b>	<b>1,300,129</b>
<b>Operating Expenses:</b>				
410 Personal Services	116,943	36,549	-	153,492
420 Other Current Expense	222,927	22,759	92,895	338,581
430 Capital Assets	2,493,200	103,580	-	2,596,780
<b>Total Operating Expenses</b>	<b>2,833,070</b>	<b>162,888</b>	<b>92,895</b>	<b>3,088,853</b>
<b>Operating Income</b>	<b>(2,049,697)</b>	<b>237,902</b>	<b>23,071</b>	<b>(1,788,724)</b>
<b>Nonoperating Revenue (Expense):</b>				
440 Debt Service - Principal	(66,377)	(62,615)	-	(128,992)
470 Interest Expense and Fiscal Charges	(48,294)	(59,990)	-	(108,284)
361 Interest Earnings	951	-	-	951
391.02 Debt Issued	1,160,771	-	-	1,160,771
<b>Total Nonoperating Expense</b>	<b>1,047,051</b>	<b>(122,605)</b>	<b>-</b>	<b>924,446</b>
<b>Income (Loss) Before Capital Grants, Transfers, and Contributions</b>	<b>(1,002,646)</b>	<b>115,297</b>	<b>23,071</b>	<b>(864,278)</b>
391.07 Capital Grant	335,461	88,542	-	424,003
511 Transfers Out	(310)	(2,460)	-	(2,770)
<b>Total Net Capital Grant, Transfers, and Contributions</b>	<b>335,151</b>	<b>86,082</b>	<b>-</b>	<b>421,233</b>
<b>Change in Net Assets</b>	<b>(667,495)</b>	<b>201,379</b>	<b>23,071</b>	<b>(443,045)</b>
<b>Net Assets (Deficit) - January 1, 2007</b>	<b>383,948</b>	<b>211,682</b>	<b>(40,653)</b>	<b>554,977</b>
<b>Net Assets (Deficit) - December 31, 2007</b>	<b>\$ (283,547)</b>	<b>\$ 413,061</b>	<b>\$ (17,582)</b>	<b>\$ 111,932</b>

The accompanying notes are an integral part of this statement.

**CITY OF BOX ELDER**

**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<b>Cash Flows from Operating Activities:</b>				
Receipt from Customers	\$ 783,373	\$ 400,790	\$ 115,966	\$ 1,300,129
Payments to Suppliers	(2,716,127)	(126,339)	(92,895)	(2,935,361)
Payments to Employees	(116,943)	(36,549)	-	(153,492)
<b>Net Cash Provided by Operating Activities</b>	<b>(2,049,697)</b>	<b>237,902</b>	<b>23,071</b>	<b>(1,788,724)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers Out	(310)	(2,460)	-	(2,770)
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from Capital Debt	1,160,771	-	-	1,160,771
Principal Paid on Capital Debt	(66,377)	(62,615)	-	(128,992)
Interest Paid on Capital Debt	(48,294)	(59,990)	-	(108,284)
Capital Grants	335,461	88,542	-	424,003
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>1,381,561</b>	<b>(34,063)</b>	<b>-</b>	<b>1,347,498</b>
<b>Cash Flows from Investing Activities:</b>				
Interest Earnings	951	-	-	951
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(667,495)</b>	<b>201,379</b>	<b>23,071</b>	<b>(443,045)</b>
Cash and Cash Equivalents - January 1, 2007	383,948	211,682	(40,653)	554,977
<b>Cash and Cash Equivalents - December 31, 2007</b>	<b>\$ (283,547)</b>	<b>\$ 413,061</b>	<b>\$ (17,582)</b>	<b>\$ 111,932</b>

The accompanying notes are an integral part of this statement.

## CITY OF BOX ELDER

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

a. Financial Reporting Entity:

The reporting entity of the City of Box Elder, (the City) consists of the primary government which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. These statements include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CITY OF BOX ELDER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b. Basis of Presentation (Continued):

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

**Governmental Funds:**

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund - to account for an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals, or nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, and debt retirement per SDCL 10-52-2. SDCL 10-52-2 was repealed as of January 1, 2006. The Second Penny Sales Tax Fund accounts for the unspent sales tax funding at December 31, 2005. This fund is a major fund.

Liquor, Lodging, and Dining Tax Fund - to account for an additional one percent sales tax which may be used only for land acquisition, architectural fees, construction costs, payment for the civic center, auditoriums, or athletic facility buildings, including the maintenance, staffing, and operations of such facilities, and the promotion and advertising of the City, its facilities, attractions, or activities. This fund is a major fund.

**CITY OF BOX ELDER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

b. Basis of Presentation (Continued):

**Governmental Funds (Continued):**

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Tax Increment District #1 Debt Service Fund – to account for the property tax revenue received on the tax increment districts to finance debt service and capital construction related to infrastructure improvement made within the tax increment district. This fund is a major fund.

**Proprietary Funds:**

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund - financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This fund is a major fund.

Sewer Fund - financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This fund is a major fund.

Solid Waste Fund – financed primarily by user charges, this fund accounts for the construction and operation of solid waste disposal services. This fund is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The City uses a modified cash basis of accounting, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

CITY OF BOX ELDER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus and Basis of Accounting (Continued):

*Measurement Focus:*

In the Government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used, applied within the limitations of the modified cash basis of accounting.

*Basis of Accounting:*

In the Government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents and those investments with terms to maturity of three months or less at the date of acquisition. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of investments arising from cash transactions and tax increment financing. The City presents negative cash balances rather than interfund loans.

As a result of the use of this modified cash basis of accounting, certain assets (i.e. capital assets) and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, accrued expenses and liabilities, and capital assets and their related debt) are not recorded in these financial statements.

If the City applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at the date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

## CITY OF BOX ELDER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### e. Interfund Eliminations and Reclassifications:

###### *Government-wide Financial Statements:*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables are eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

##### f. Capital Assets:

Under the modified cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash, in the Government-wide financial statements, the Fund financial statements, and the Proprietary financial statements. The City has not recorded capital assets as of December 31, 2007.

##### g. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of all funds are not reported as liabilities in these modified cash basis financial statements.

##### h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

##### i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which the related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

## **CITY OF BOX ELDER**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

j. Equity Classifications:

*Government-wide Statements:*

Equity is classified as net assets and is displayed in two components under the modified cash basis:

1. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of restricted.

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### **2. DEFICIT FUND CASH BALANCES OF INDIVIDUAL MAJOR FUNDS**

As of December 31, 2007, the Solid Waste fund and Water fund had deficit fund cash balances/net asset balances of \$17,582 and \$283,547, respectively. The City is determining the feasibility of an increase in customer water rates to resolve the deficit cash balance in the Water fund. However, the City expects the deficit cash balance to be eliminated in 2008 due to the receipt of loan proceeds and grant proceeds. Since the services for the Solid Waste fund were terminated in September 2007, the City plans to transfer funds to the Solid Waste fund in 2008 to eliminate the fund and resolve the deficit cash balance.

#### **3. DEPOSITS AND INVESTMENTS**

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.



## **CITY OF BOX ELDER**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)** **DECEMBER 31, 2007**

#### **3. DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments - In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

The City's investments consist of **\$558,622** at December 31, 2007, invested in the South Dakota Public Fund Investment Trust (SDFIT) pool, which include no specified maturity date. The SDFIT is an external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

##### **Custodial Credit Risk**

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2007, none of the City's deposits were exposed to custodial credit risk.

##### **Interest Rate Risk**

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

##### **Credit Risk**

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2007, the City's investment in the SDFIT pool was unrated.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the General Fund.

#### **4. PROPERTY TAXES**

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

**CITY OF BOX ELDER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007**

**5. LONG-TERM DEBT**

Debt payable is comprised of the following at December 31, 2007:

	<u>Balance</u> <u>1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2007</u>	<u>Due Within</u> <u>One Year</u>
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Tax Increment Financing	\$ -	\$ 1,046,965	\$ -	\$ 1,046,965	\$ 243,625
Capital Acquisition Leases	10,010	-	6,973	3,037	3,037
	10,010	1,046,965	6,973	1,050,002	246,662
<b>Business-Type Activities:</b>					
General Obligation Bonds	156,123	-	39,015	117,108	40,202
Revenue Bonds	1,685,377	1,160,771	74,727	2,771,421	54,497
Capital Acquisition Leases	33,662	-	11,448	22,214	11,914
<b>Total Business-Type Activities</b>	<b>1,875,162</b>	<b>1,160,771</b>	<b>125,190</b>	<b>2,910,743</b>	<b>106,613</b>
<b>Total Primary Government</b>	<b>\$ 1,885,172</b>	<b>\$ 2,207,736</b>	<b>\$ 132,163</b>	<b>\$ 3,960,745</b>	<b>\$ 353,275</b>

The purchase prices at the commencement of the capital leases were as follows:

Principal	\$ 89,567
Interest	9,856
<b>Total</b>	<b>\$ 99,423</b>

Debt Payable at December 31, 2007 is comprised of the following:

*General Obligation Bonds:*

General Obligation Waste Water Treatment Refunding Bonds, Series 1990; mature October 2010, bear interest at 3.00 percent, including monthly payments of \$3,597. Financed through the Sewer Fund. \$ 117,108

*Tax Increment Financing Notes:*

Tax Increment District #1, including interest at 8 percent, due in varying installments within 30 days of property tax collection from the county. Repayment is limited to incremental property taxes collected. Financed through the TIF Debt Service Fund. 1,046,965

*Revenue Bonds:*

2006 Water Utility Revenue bonds through Rural Development, bears interest at 4.375 percent, due in monthly installments of \$8,182 through November 2042. Financed through the Water Fund. 1,550,103

1973 Water Revenue Note through Rural Development, bears interest at 5.00 percent, including annual payments of \$3,000, matures in January 2012. Financed through the Water Fund or the Second Penny Sales Tax Fund. 15,000

**CITY OF BOX ELDER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007**

**5. LONG-TERM DEBT (CONTINUED)**

Debt payable is comprised of the following at December 31, 2007 (continued):

1978 Sewer Revenue Note through Rural Development; bears interest at 5.00 percent, including annual payments of \$10,673, matures in September 2018. Financed through the Sewer Fund.	87,527
2003 Sewer Revenue Note through Rural Development; bears interest at 4.50 percent, including monthly payments of \$4,459, matures in December 2041. Financed through the Sewer Fund.	930,868
2003 Sewer Revenue Note through Rural Development; bears interest at 4.50 percent, including monthly payments of \$900, matures in January 2042. Financed through the Sewer Fund.	187,923
<i>Capital Acquisition Leases:</i>	
Capital Lease for a skid loader that bears interest at 4.75 percent, with monthly payments of \$608, matures in May 2008. Financed through the General Fund.	3,037
Capital Lease for a backhoe that bears interest of 4.00 percent, with monthly payments of \$1,049, matures in October 2009. Financed through the Water Fund.	22,214
<b>Total Long-Term Debt</b>	<b>\$ 3,960,745</b>

The annual requirements to amortize all debt outstanding as of December 31, 2007, are as follows:

	General Obligation		Revenue Bonds		Capital Acquisition Leases	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2008	\$ 2,963	\$ 40,202	\$ 122,418	\$ 54,497	\$ 676	\$ 14,951
2009	1,741	41,425	119,917	56,848	190	10,300
2010	490	35,481	117,309	59,306	-	-
2011	-	-	114,588	61,877	-	-
2012	-	-	111,750	64,565	-	-
2013-2017	-	-	513,173	352,652	-	-
2018-2022	-	-	428,372	393,388	-	-
2023-2027	-	-	333,096	479,364	-	-
2028-2032	-	-	214,928	597,532	-	-
2033-2037	-	-	88,990	416,284	-	-
2038-2042	-	-	22,238	235,108	-	-
<b>Total</b>	<b>\$ 5,194</b>	<b>\$ 117,108</b>	<b>\$ 2,186,779</b>	<b>\$ 2,771,421</b>	<b>\$ 866</b>	<b>\$ 25,251</b>

**CITY OF BOX ELDER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2007**

**5. LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize all debt outstanding as of December 31, 2007, are as follows (continued):

	Tax Increment Financing		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2008	\$ 83,757	\$ 243,625	\$ 209,814	\$ 353,275
2009	64,267	420,259	186,115	528,832
2010	30,646	383,081	148,445	477,868
2011	-	-	114,588	61,877
2012	-	-	111,750	64,565
2013-2017	-	-	513,173	352,652
2018-2022	-	-	428,372	393,388
2023-2027	-	-	333,096	479,364
2028-2032	-	-	214,928	597,532
2033-2037	-	-	88,990	416,284
2038-2042	-	-	22,238	235,108
<b>Total</b>	<b>\$ 178,670</b>	<b>\$ 1,046,965</b>	<b>\$ 2,371,509</b>	<b>\$ 3,960,745</b>

Construction commitments as of December 31, 2007, were approximately \$375,000 relating to several construction projects. Funding for these projects will be provided through debt borrowings and through Federal grants.

**6. RETIREMENT PLAN**

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2007, 2006, and 2005, were \$51,828, \$47,018, and \$41,312, respectively, equal to the required contributions each year.

## CITY OF BOX ELDER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007

#### 7. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2007, the City managed its risks as follows:

##### Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended December 31, 2007, no claims were filed for unemployment benefits. Claims have resulted in the payment of benefits in the amount of \$-0-, \$3,174, and \$3,376, during the years ended December 31, 2007, 2006, and 2005, respectively.

##### Liability Insurance:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for general liability, officials' liability, automobile liability and damage, property damage and law enforcement liability.

The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members, to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

The agreement with the South Dakota Public Assurance Alliance (SDPAA) provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$100 to \$1,000 deductible depending on the type of coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's First Full Year	50%
End of the City's Second Full Year	60%
End of the City's Third Full Year	70%
End of the City's Fourth Full Year	80%
End of the City's Fifth Full Year	90%
End of the City's Sixth Full Year and Thereafter	100%

As of the December 31, 2007, the City has a vested balance in the cumulative reserve fund of \$43,668 and is considered to be fully vested.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

##### Employee Health Insurance:

The City purchases health and dental insurance for its employees from a commercial insurance carrier.

**CITY OF BOX ELDER**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)**  
**DECEMBER 31, 2007**

**7. RISK MANAGEMENT (CONTINUED)**

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,675,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

**8. DESIGNATED NET ASSETS**

The unrestricted net assets of the City's Water Fund include net assets that are designated for customer deposits of **\$97,888** at December 31, 2007.

**9. CITY OFFICERS**

The following were municipal officers for the year ended December 31, 2007:

**Mayor:**  
Al Dial  
**Council:**  
Jane Maine  
William Griffiths  
Charlie Wood  
Barb Frerichs  
Barbara Sandine  
Terry Wenrick  
**Finance Officer:**  
Debbie Knapp

**10. INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2007, were as follows.

	Transfer In	Transfer Out
General Fund	\$ 31,921	\$ 14
2nd Penny Sales Tax Fund	-	25,383
Liquor, Lodging, and Dining Tax Fund	-	3,754
Sewer Fund	-	2,460
Water Fund	-	310
<b>Total</b>	<b>\$ 31,921</b>	<b>\$ 31,921</b>

**11. SURETY BOND**

At December 31, 2008, the City has \$257,147 included in the General Fund cash balance from a surety bond, which will be refunded to the contractor upon the completion of the construction project.

4  
REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BOX ELDER**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Budgeted Amounts</b>		<b>Budgetary Basis - Actual Amounts</b>	<b>Variance</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>		
<b>Revenue:</b>				
<i>310 Taxes:</i>				
311 General Property Taxes	\$ 433,788	\$ 433,788	\$ 407,368	\$ (26,420)
313 General Sales and Use Taxes	516,000	516,000	648,934	132,934
315 Amusement Taxes	1,200	1,200	864	(336)
319 Penalties and Interest on Delinquent Taxes	5,000	5,000	5,832	832
320 Licenses and Permits	112,100	112,100	116,390	4,290
<i>330 Intergovernmental Revenue:</i>				
334 State Grants	-	-	9,985	9,985
<i>335 State Shared Revenue:</i>				
335.01 Bank Franchise Tax	5,000	5,000	4,522	(478)
335.03 Liquor Tax Reversion	15,000	15,000	11,641	(3,359)
335.04 Motor Vehicle Licenses (5%)	19,000	19,000	29,139	10,139
335.08 Local Government Highway and Bridge Fund	45,000	45,000	18,131	(26,869)
335.20 Other	500	500	511	11
<i>340 Charges for Goods and Services:</i>				
341 General Government	2,000	2,000	4,516	2,516
<i>350 Fines and Forfeits:</i>				
351 Court Fines and Costs	2,000	2,000	5,057	3,057
<i>360 Miscellaneous Revenue:</i>				
361 Investment Earnings	14,000	14,000	5,353	(8,647)
367 Contributions and Donations from Private Sources	1,500	1,500	-	(1,500)
369 Other	18,150	18,150	293,098	274,948
<b>Total Revenue</b>	<b>1,190,238</b>	<b>1,190,238</b>	<b>1,561,341</b>	<b>371,103</b>



**CITY OF BOX ELDER**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Budgeted Amounts</b>		<b>Budgetary Basis - Actual Amounts</b>	<b>Variance</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>		
<b>Expenditures:</b>				
<i>410 General Government:</i>				
412 Executive	76,601	76,601	71,219	5,382
413 Elections	1,577	1,577	2,214	(637)
414 Financial Administration	308,550	308,550	408,412	(99,862)
<i>420 Public Safety:</i>				
421 Police	603,271	603,271	575,924	27,347
<i>430 Public Works:</i>				
431 Highways and Streets	329,774	336,774	281,125	55,649
<i>450 Culture and Recreation:</i>				
451 Recreation	13,500	20,400	11,500	8,900
452 Parks	78,725	82,725	123,853	(41,128)
455 Libraries	3,750	3,750	3,750	-
<i>460 Conservation and Development:</i>				
465 Planning and Zoning	240,557	229,657	143,471	86,186
470 Debt Service				
Interest	-	325	556	(231)
Principal	-	6,973	6,742	231
<b>Total Expenditures</b>	<b>1,656,305</b>	<b>1,670,603</b>	<b>1,628,766</b>	<b>41,837</b>
<b>Other Financing Sources:</b>				
391.1 Transfers In	-	-	31,921	31,921
391.03 Sale of Municipal Property	-	-	25,000	25,000
391.04 Compensation for Loss or Damage	-	-	553	553
511 Transfers Out	-	-	(14)	(14)
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>57,460</b>	<b>57,460</b>
<b>Net Change in Fund Balance</b>	<b>(466,067)</b>	<b>(480,365)</b>	<b>(9,965)</b>	<b>470,400</b>
Fund Balance - January 1, 2007	529,472	529,472	529,472	-
<b>Fund Balance - December 31, 2007</b>	<b>\$ 63,405</b>	<b>\$ 49,107</b>	<b>\$ 519,507</b>	<b>\$ 470,400</b>

The notes to the required supplementary information are an integral part of this statement.

**CITY OF BOX ELDER**

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
LIQUOR, LODGING, AND DINING TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Budgeted Amounts</b>		<b>Budgetary Basis - Actual Amounts</b>	<b>Variance</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>		
<b>Revenue:</b>				
<i>310 Taxes:</i>				
313 General Sales and Use Taxes	\$ 45,000	\$ 45,000	\$ 71,635	\$ 26,635
<i>360 Miscellaneous Revenue:</i>				
361 Investment Earnings	-	-	3,754	3,754
<b>Total Revenue</b>	<b>45,000</b>	<b>45,000</b>	<b>75,389</b>	<b>30,389</b>
<b>Expenditures:</b>				
465 Community Development	2,000	2,000	1,210	790
<b>Total Expenditures</b>	<b>2,000</b>	<b>2,000</b>	<b>1,210</b>	<b>790</b>
<b>Other Financing Sources:</b>				
511 Transfers Out	-	-	(3,754)	(3,754)
<b>Net Change in Fund Balance</b>	<b>43,000</b>	<b>43,000</b>	<b>70,425</b>	<b>27,425</b>
Fund Balance - January 1, 2007	431,168	431,168	431,168	-
<b>Fund Balance - December 31, 2007</b>	<b>\$ 474,168</b>	<b>\$ 474,168</b>	<b>\$ 501,593</b>	<b>\$ 27,425</b>

The notes to the required supplementary information are an integral part of this statement.

## **CITY OF BOX ELDER**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2006**

#### **(1) Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2007.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting. There was no budget for the Second Penny Sales Tax Fund as there was no anticipated revenue or expenditures for the fund for the year ended December 31, 2007.

#### **(2) GAAP Budgetary Accounting Basis Differences**

Financial statements prepared in conformity with USGAAP would present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures should be reported within the function to which they relate. For example, the purchase of a new fire truck should be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however in the Budgetary RSI Schedule, the purchase of a fire truck should be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures. However, the City has not recorded capital assets at December 31, 2007, and these amounts are excluded from these financial statements.

SINGLE AUDIT SECTION

**CITY OF BOX ELDER**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007**

The recommendations reported in the prior audit of the City of Box Elder as findings 2006-04, and 2006-05 will be restated on the accompanying Schedule of Current Year Findings and Recommendations.

The City implemented portions of recommendations from the prior audit. In addition, the City is in the process of implementing other recommendations. Therefore, the recommendations reported in the prior audit of the City of Box Elder as findings 2006-01, 2006-02, and 2006-03 will be updated or changed on the accompanying Schedule of Current Year Findings and Recommendations.

## **CITY OF BOX ELDER**

### **SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN DECEMBER 31, 2007**

#### **A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses a qualified opinion on the financial statements of the City of Box Elder (the City).
2. Several significant deficiencies disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards. All of the deficiencies are reported as material weaknesses.
3. Instance of noncompliance material to the financial statements of the City were disclosed during the audit.
4. Several significant deficiencies disclosed during the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. All of these deficiencies are reported as material weaknesses.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as a major program included Water and Waste Disposal Systems for Rural Communities (#10.760) and Congressionally Mandated Projects (#66.202).
8. The threshold for distinguishing types A and B programs was \$300,000.
9. The City was not considered a low risk auditee under the criteria established in OMB Circular A-133.

#### **B. FINDINGS – FINANCIAL STATEMENT AUDIT**

##### **Significant Deficiencies – Material Weaknesses in Internal Control**

##### **Finding No. 2006-01: Internal Control Deficiencies**

*Condition:* Deficiencies were noted in internal accounting control and record keeping resulting in a diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This is the eighth consecutive audit in which similar findings were noted. In addition, the auditor's report is qualified because of these items. The following deficiencies in internal accounting control and record keeping were noted:

##### **Utility Operation Process:**

- a. The subsidiary listing of customer deposits was not reconciled to the general ledger.

**CITY OF BOX ELDER**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
DECEMBER 31, 2007**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

Significant Deficiencies – Material Weaknesses in Internal Control (Continued)

Finding No. 2006-01: Internal Control Deficiencies (Continued)

Expenditure Process:

- b. Not all claim vouchers contained a signature or initial of an appropriate City employee (department head or finance officer) to indicate that the goods or services were received or rendered and approved.
- c. For two items selected for testing, the expenses were not coded to the proper account classifications.
- d. One item tested was paid by the City, but not included in the bill list approved by the Council.
- e. Invoices could not be located for two items that were selected for testing.
- f. For three travel reimbursements paid to police department employees, we noted that the per diem amount exceeded that amount allowed per the City's policy, travel was reimbursed at an improper rate, and the number of miles reimbursed by the City did not agree to the South Dakota's official mileage chart.

Payroll Process:

- g. Time sheets were not always approved by the department head or supervisor.
- h. One employee of the police department and one employee of the public works department selected for testing were paid for more time than was documented on their timesheets.
- i. Two employees selected for testing did not have their supervisor's signature on their time cards acknowledging that the time cards were missing the "check in" time.
- j. One employee's wage was incorrectly coded to the financial administration function.
- k. For one employee of the financial administration function who was tested, no documentation was available to support a paid time off ("Mayor's day off").

Other Control Processes:

- l. Several bank reconciliations tested during 2007 did not agree to the general ledger; these differences could not be explained. We also noted that no review of the bank reconciliations was performed, the bank reconciliations were not performed timely during 2007, and the year-end bank reconciliations did not agree to the general ledger by \$5,571.
- m. The City did not timely add a general ledger account to record a new Tax Increment District bank account that was setup in 2007.
- n. The City recorded certain receipts of Federal grants and loan proceeds by netting the grant/loan proceeds/revenue against the expense.
- o. Capital asset records and depreciation schedules for general capital assets and enterprise fund capital assets were not established. The City has not complied with SDCL 5-24, which requires the City to annually inventory personal property of the City.
- p. The City did not compare budgets to actual performance to measure the financial condition of the City, and large variances were not investigated.

*Criteria and Effect:* These deficiencies resulted in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded.

**CITY OF BOX ELDER**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
DECEMBER 31, 2007**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Significant Deficiencies – Material Weaknesses in Internal Control (Continued)**

Finding No. 2006-01: **Internal Control Deficiencies (Continued)**

*Questioned Costs:* None

*Recommendations:*

- a. We recommend a subsidiary listing of customer deposits be reconciled monthly to the control account in the general ledger.
- b. We recommend the City strengthen review and monitoring to ensure all claim vouchers and supporting invoices are reviewed and verified by department heads to indicate the goods or services were received and approved.
- c. We recommend that the City consistently charge expenses to the appropriate account classifications based on budget expectations.
- d. We recommend that the City review more carefully all vendors on the bill list approved by the Council.
- e. We recommend the City strengthen its review and monitoring procedures to ensure documentation is obtained prior to payment of its expenses and to ensure this documentation is retained.
- f. We recommend that per diem be paid out at the City's approved rate, travel expenses be reimbursed at the City's approved rate, and the number of miles reimbursed for travel expenditures be agreed to the South Dakota's official mileage chart.
- g. We recommend the City strengthen its review and monitoring to make certain all time sheets are signed by the employee and approved by the department head prior to the finance officer processing payroll.
- h. We recommend the City strengthen its review and monitoring procedures to make certain all timecards are agreed to the time sheets with any discrepancies investigated and resolved prior to processing payroll.
- i. We recommend the City strengthen its review and monitoring procedures to ensure supervisors agree the timecards to the time sheets and approve of all manual adjustments to the time card.
- j. We recommend that the payroll registers be reviewed in detail prior to processing to ensure that the payroll is being charged to the appropriate function based on budget expectations.
- k. We recommend special leave documentation and approval be maintained.
- l. We recommend that the bank reconciliation that is prepared by the finance officer be reviewed in detail each month, be prepared timely, and be reconciled to the general ledger. Any recurring or aged outstanding items should be investigated and resolved in a timely manner.
- m. We recommend that the appropriate general ledger account be setup timely after a new bank account is established.
- n. We recommend that all grant/loan proceed revenues and expenses be recorded in separate accounts, so that these amounts can be tracked for propriety.
- o. We recommend that proper capital asset and depreciation records be established and maintained. The City should annually inventory personal property in accordance with state law.
- p. We recommend that the City add detail to the budgets to eliminate errors of improperly recording and classifying expenses. The City should also modify the budget expectations based on the recent financial trends of the City and anticipated changes in future periods.

*Response/Corrective Action Plan:* The City has made the adjustments as recommended in items a through o for future years. For item p, the City has been improving the budget every year, but as this is a continuing process this will continue to evolve as the City works through the budget process. The City has made the adjustments as recommended in q for future years. The Finance Officer is responsible for the corrective action plan for this finding.



**CITY OF BOX ELDER**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
DECEMBER 31, 2007**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

Significant Deficiencies – Material Weaknesses in Internal Control (Continued)

**Finding No. 2006 – 02: Utility Rate Billing Errors**

*Condition:* We noted the following errors during our review of 30 utility billings:

- a. Three of the customers selected for testing were under/overbilled due to rates per the City Ordinance being entered into the City's billing system incorrectly.
- b. Pertaining to apartment complexes, the City's ordinances did not indicate how the water and sewer billings should be charged, the City was not applying the water and sewer charges consistently on the apartment buildings selected for testing, and one of the apartment complexes selected for testing did not have supporting documentation to substantiate a change in the number of units per meter.
- c. There was no documentation to support the senior discount that was given to four residential customers selected for testing.
- d. Eight of the credit card deposits per the daily summary reports did not agree to amounts deposited per the bank statement due to batches being processed mid-day and fees being directly deducted by the credit card company. We also noted that the credit card transactions were not being reconciled to the deposits per the bank statement during 2007.

*Criteria and Effect:* The above amounts were collectively not significant to the City. The accuracy of the utility billing system is vital to the operations of the City and should be monitored carefully. City ordinances establishing utility rates need to be followed.

*Recommendation:*

- a. We recommend non-utility staff complete internal audits throughout the year on various types of customers in order to verify proper rates are being charged.
- b. We recommend proper rates be charged for residential and commercial customers and for the rates to be verified through internal audits. For any customers that are not being charged correctly, the variance should be investigated and corrected in a timely manner.
- c. The supporting documentation should be maintained for individuals receiving the senior discount on their utility billings.
- d. The credit card transactions should be reconciled to the deposits per the monthly bank statement.

*Response/Corrective Action Plan:* Management represented to us during our audit that the billings errors would be corrected in January 2008 and that the other items will be approved as soon as the proper policies can be established. The Finance Officer is responsible for the corrective action plan for this finding.

**Finding No. 2006 – 03: Segregation of Duties**

*Condition:* For a portion of 2007, the Assistant Planning and Zoning Director calculated the permit fee, receipted and processed the permit payment, issued the permits, and tracked the permits in the City's accounting software. We also noted that during 2007, the Utility Billing Clerk had access to the utility payments, access to adjust the utility customer accounts in the utility software module, the ability to record adjustments into the general ledger, and prepared the utility billing statements; no review was performed of the customer adjustments' report or of the general ledger adjustments.

*Criteria and Effect:* As a result of the above, an inadequate segregation of duties existed for the permit and utility revenue functions of the City.

*Questioned Costs:* None

**CITY OF BOX ELDER**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
DECEMBER 31, 2007**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

Significant Deficiencies – Material Weaknesses in Internal Control (Continued)

Finding No. 2006 – 03: Segregation of Duties (Continued)

*Recommendation:* We recommend the City officials be cognizant of this lack of segregation of duties and attempt to provide compensating internal controls whenever and wherever possible and practical. Specifically, the customer adjustment's report and the general ledger adjustments should be reviewed by the finance officer, and no one individual should have access to all of the following functions: the physical cash receipts, ability to record the customers' payments into the general ledger, and ability to adjust the customers' accounts.

*Response/Corrective Action Plan:* As the City staff is still small enough, segregation of duties is always a problem. The City will make every effort to be cognizant of this lack of segregation of duties and attempt to provide compensating internal controls whenever and wherever possible and practical. The Finance Officer is responsible for the corrective action plan for this finding.

Finding No. 2006 – 04: Financial Statement Preparation

*Condition:* As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and Schedule of Expenditure of Federal Awards as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with municipalities of your size. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements.

*Criteria and Effect:* It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

*Questioned Costs:* None

*Recommendation:* It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response/Corrective Action Plan:* The City is aware that it is the responsibility of City management and the City Council to make the decision whether to accept the degree of risk associated with the preparation of the completed financial statements. Based on the cost and other considerations at this time the City is satisfied with the completed financial statements. The Finance Officer is responsible for the corrective action plan for this finding.

Finding No. 2006 – 05: Internal Control Over Significant Accounts

*Condition:* During the course of our engagement, we proposed material audit adjustments in the amount \$2,612,704 that resulted in a \$151,614 decrease in reported net assets and materially changed the Schedule of Expenditures of Federal Awards. Adjustments included converting the trial balance to the modified cash basis of accounting, rolling forward the fund balances, correcting revenue posted to the wrong account, adjusting special assessment revenue and expense, adjusting sales tax revenue, allocating the liability insurance to the appropriate departments, adjusting bond principal and interest, recording debt proceeds, reclassifying grant revenue, adjusting interest income, adjusting payroll expense and payroll tax expense, reclassifying revenue that was improperly netted with improvements other than buildings expense, and adjusting cash.

**CITY OF BOX ELDER**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONTINUED)  
DECEMBER 31, 2007**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

Significant Deficiencies – Material Weaknesses in Internal Control (Continued)

Finding No. 2006 – 05: Internal Control Over Significant Accounts (Continued)

*Criteria and Effect:* These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a material misstatement of the City's financial statements.

*Questioned Costs:* None

*Recommendation:* We recommend that the City's operation be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. At a minimum, the balance sheet accounts should be adjusted to actual at year end.

*Response/Corrective Action Plan:* The City's operations will continue to be reviewed for potential changes in the accounting process so that the appropriate journal entries can be made throughout the year. The City will adjust the balance sheet accounts to the actual amounts at year end to reflect the reconciled account balances. The Finance Officer is responsible for the corrective action plan for this finding.

Finding No. 2007 – 01: Deposit Refunds

*Condition:* During our review of customer utility deposit refunds, we noted that a deposit was improperly refunded to the current resident who had not yet paid a deposit; rather than refunding the deposit to the former resident, who had originally paid the deposit.

*Criteria and Effect:* Utility deposits need to be refunded to the proper customer.

*Questioned Costs:* None

*Recommendations:* Water deposits should be applied to the water bill or refunded to the proper resident when services are terminated or transferred.

*Response/Corrective Action Plan:* The City has set up processes so that deposits are applied to the water bill or refunded to the proper resident when services are terminated or transferred. The Finance Officer is responsible for the corrective action plan for this finding.

Finding No. 2007-02: Budgetary Overdrafts

*Condition:* The City has several budgetary overdrafts as noted in the budgetary schedules in violation of South Dakota Codified Law 9-21-9.

*Criteria and Effect:* The City did not follow State law.

*Questioned Costs:* None

*Recommendation:* The City in the future should complete supplemental appropriations for unbudgeted expenditures.

*Response:* The City has been improving the budget every year. The Finance Officer is responsible for the corrective action plan for this finding.

**CITY OF BOX ELDER**

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN  
(CONCLUDED)  
DECEMBER 31, 2007**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONCLUDED)**

Significant Deficiencies – Material Weaknesses in Internal Control (Concluded)

Finding No. 2007-04: Internal Controls Over Negative Cash Balances

*Condition:* The City's Water and Solid Waste Enterprise Funds report negative cash balances at December 31, 2007. State law requires that there be sufficient cash in each fund to cover expenditures.

*Criteria and Effect:* The City did not follow SDCL 9-23-4.

*Questioned Costs:* None

*Recommendation:* The City should develop internal controls to monitor fund cash balances and make operating transfers as needed.

*Response:* The City will make every effort to be cognizant of this lack of internal controls and will make changes wherever possible and practical to review the negative cash balances. The Finance Officer is responsible for the corrective action plan for this finding.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

Significant Deficiencies – Material Weaknesses in Internal Control

The Findings 2006-01, 2006-04, and 2006-05 listed in Part B relate to the major federal award programs, which are listed in this report and in the Schedule of Expenditures of Federal Awards as Water and Waste Disposal Systems for Rural Communities (CFDA #10.760) and Congressional Mandated Projects (CFDA #66.202).

Finding No. 2007-03: Internal Controls Over the Preparation of the Schedule of Expenditures of Federal Awards

*Condition:* As noted in finding 2006-4, the City does not have the internal controls in place to prepare the schedule of expenditures of federal awards as required by OMB Circular A-133.

*Criteria and Effect:* The City's lack of internal controls to identify its federal awards could result it awards being omitted from the schedule of expenditures of federal awards.

*Questioned Costs:* None

*Recommendation:* The City should train accounting staff to understand its responsibilities regarding federal grant funding. The City should develop internal controls to monitor and track its federal expenditures.

*Response:* The City will make every effort to be cognizant of this lack of internal controls and will make changes wherever possible and practical. The Finance Officer is responsible for the corrective action plan for this finding.

**CITY OF BOX ELDER**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	CFDA Numbers	2007 Amount
<i>U.S. Department of Agriculture:</i>		
Water and Waste Disposal Systems for Rural Communities (Note 1)	10.760	\$ 1,369,087
<i>U.S. Environmental Protection Agency:</i>		
Congressionally Mandated Projects (Note 1)	66.202	447,100
<i>U.S. General Services Administration:</i>		
Pass-Through the South Dakota Federal Property Agency		
Donation of Federal Surplus Personal Property	39.003	27,830
<b>Total</b>		<b>\$ 1,844,017</b>

Note 1: This program was tested as a major program.

Note 2: The schedule of expenditure of federal awards is presented on the cash basis of accounting.

## OTHER REPORTS



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City Council  
City of Box Elder  
Box Elder, South Dakota

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF BOX ELDER** (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our qualified report thereon dated March 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as findings 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, and 2007-01 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However all of the significant deficiencies described above are considered to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which is described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan as 2007-2, 2007-4 and 2006-1 letter o.

The management's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board and management of the City of Box Elder, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

March 11, 2009





-44-  
**Ketel Thorstenson, LLP**

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council  
City of Box Elder  
Box Elder, South Dakota

**Compliance**

We have audited the compliance of the **City of Box Elder** (the City) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal programs for the year ended December 31, 2007. The City's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2007.

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### Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2006-01, 2006-04, 2006-05 and 2007-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We considered all of the deficiencies described above to be material weaknesses.

City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board and management of the City of Box Elder, federal awarding agencies and pass-through entities, the South Dakota Legislature, and state granting agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP  
Certified Public Accountants

March 11, 2009